



Joan Marsh
Director
Federal Government Affairs

Suite 1000
1120 20th Street NW
Washington DC 20036
202 457 3120
FAX 202 457 3110

December 6, 2002

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: Notice of Oral Ex Parte Communication, In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, CC Docket Nos. 01-338, 96-98 and 98-147

Dear Ms. Dortch:

On December 4, 2002, Mike Pfau, Rich Rubin, Rich Clarke and the undersigned, all representing AT&T, met with Robert Tanner, Jeremy Miller, Daniel Shiman, Ben Childers, Ian Dilner and Aaron Goldberger of the Commission's Wireline Competition Bureau and Simon Wilkie of the Commission's Office of Plans and Policy. The purpose of the meeting was to discuss the engineering and economic disadvantages that CLECs face in trying to compete in the mass-market using a UNE-L strategy. All comments made at the meeting were consistent with the attached presentation materials and the analyses submitted via ex parte on November 25, 2002.

Consistent with Commission rules, I am filing one electronic copy of this notice and request that you place it in the record of the above-referenced proceedings.

Sincerely,

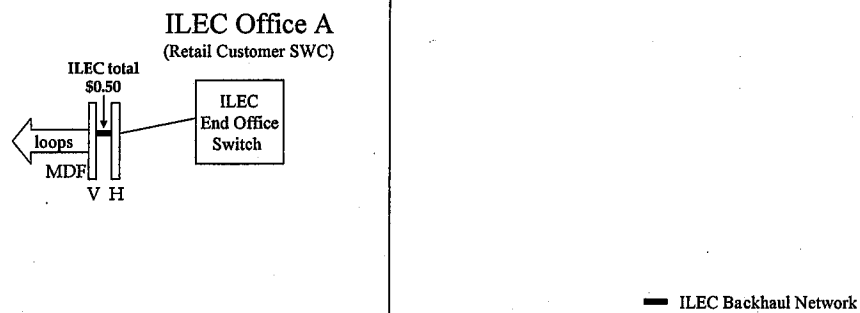
A handwritten signature in black ink, appearing to be "JM" followed by a long horizontal line.

Joan Marsh

cc: Thomas Navin
Jeremy Miller

Robert Tanner
Dan Shiman

ILEC vs. CLEC loop interconnection



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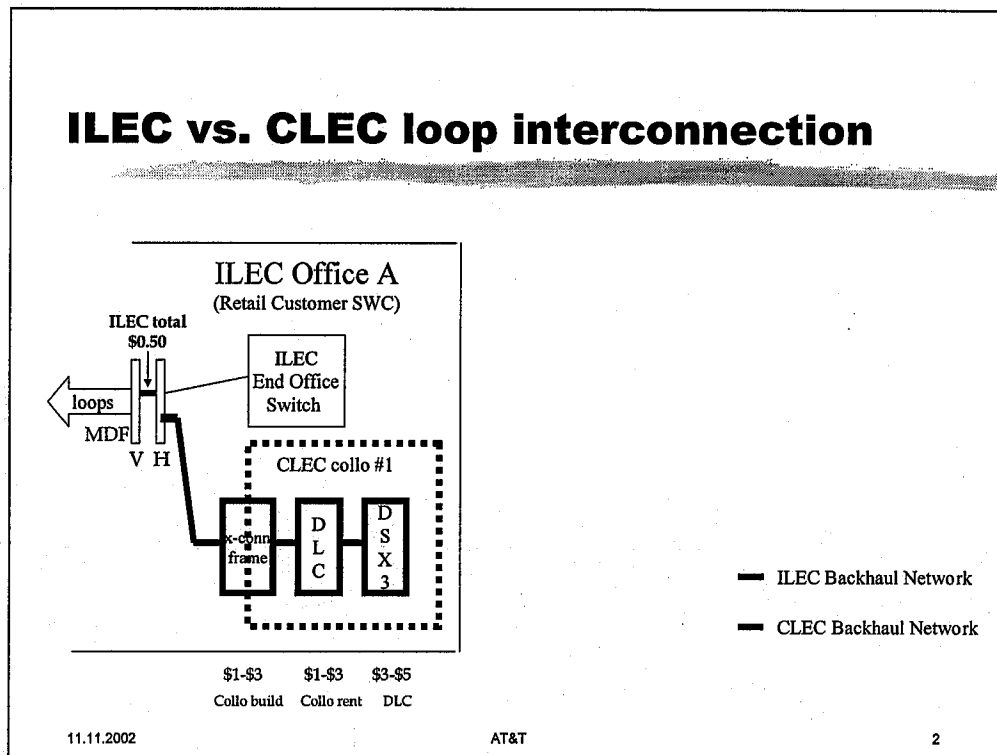
ILEC COST ESTIMATE INFORMATION:

When an ILEC activates service for a retail customer, the customer loop must be connected to the switch port. Either a short pair of wires is run between the loop and the switch port appearances on the Main Distribution Frame or, if the connection was left in place, a software transaction activates service. The connection between the loop and the switch functionality for the ILEC is a short copper pair that represents a cost well under **50 cents per month**.

CLEC COST ESTIMATE INFORMATION:

ALL COSTS REPRESENTED IN THIS PRESENTATION ARE CONSERVATIVE ESTIMATES OF AVERAGE INDUSTRY COSTS RELYING ON A RANGE OF INDUSTRY INPUTS AND ARE NOT NECESSARILY REFLECTIVE OF AT&T'S ACTUAL COSTS FOR A PARTICULAR WIRE CENTER'S LOOP COLLECTION AND BACKHAUL NETWORK.

ILEC vs. CLEC loop interconnection



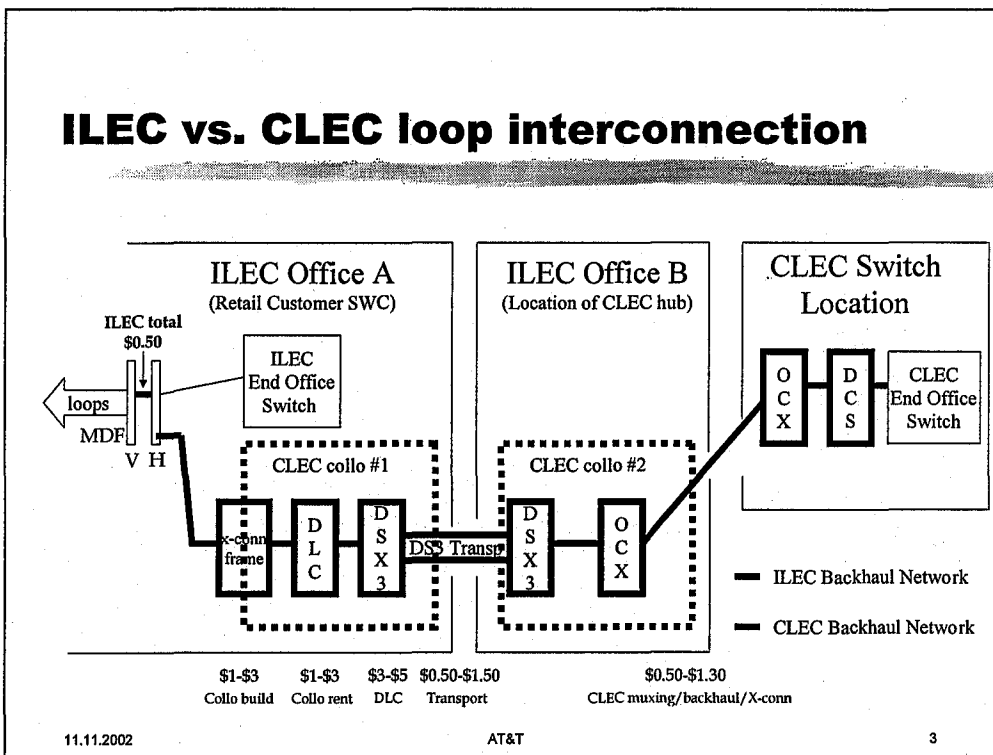
When an CLEC attempts to provide voice grade service over a UNE-L, it must invest in an extensive loop collection and backhaul infrastructure to replace the equivalent of the ILEC tie-pair. First, the CLEC must digitize, concentrate and multiplex every UNE-L to permit transmission of the customers' communications to a distant switching location.

The average physical collocation recurring monthly rental charges (by state) range from \$1,200 (CT) to \$8,200 (NY) per month based upon RBOC charges. Variations in the charges for power, required number of feeds, and rental of the actual floor space account for a large part of the variations. A large collocation will have from 1,000 to 3,000 lines (an average size RBOC LSO has about 15,000 DS0 equivalents, so such volumes imply a single carrier captures 7% to 20% share). Nevertheless, it is theoretically possible to place up to about 9,000 lines in a 100 square foot cage. Thus, the monthly collocation rental minimally represents a cost of from \$1.20 (\$1,200/1,000) to \$2.73 (\$8,200/3,000), or roughly \$1 to \$3. A rule of thumb is that the amortized space preparation costs imposed by the ILEC (e.g., for preparing the floor space, segmenting it into cages, providing power feeds and HVAC, etc.) will be in the range of the monthly recurring costs. Thus if the monthly recurring costs range from \$1 to \$3 per month, then the amortized monthly cost for the space preparation will be in the same range.

Average RBOC collocation costs are about \$4,200 and space preparation costs are likely to be about \$225,000 (or \$5,087 per month) for a total of \$9,287 per month. A full 100 square foot collocation can practically hold 6,000 to 8,000 lines, so the absolute best that can be expected is a collocation cost of slightly under \$1.40/line (\$9,287/7,000), but for still-large collocations of 3,000 to 4,000 lines, actual per-line costs will be about double the \$1.40 figure.

The DS0 infrastructure, including DLC, DSX, muxes, framework, fuse bays and installation, for a collocation having 1,000 to 3,000 lines, can be in the range of about \$188,000 (for 1,000 lines) to about \$363,000 (3,000 lines), which equates to a monthly cost per line of \$3.15 (3,000 lines) to \$5.29 (1,000 lines), or roughly \$3 to \$5. The best theoretically achievable cost if the collocation supports the very maximum range of lines (6,000 to 8,000) is in the range or \$2.53 (8,000 lines) to \$2.68 (6,000 lines). At 7,000 lines, the average cost is \$2.31 for equipment and \$0.24 for maintenance.

These figures are confirmed as quite reasonable when compared with the Commission's Synthesis Model. This model costs a 1,000 line DLC at about \$187,000, and a 3,000 line DLC at \$499,000.

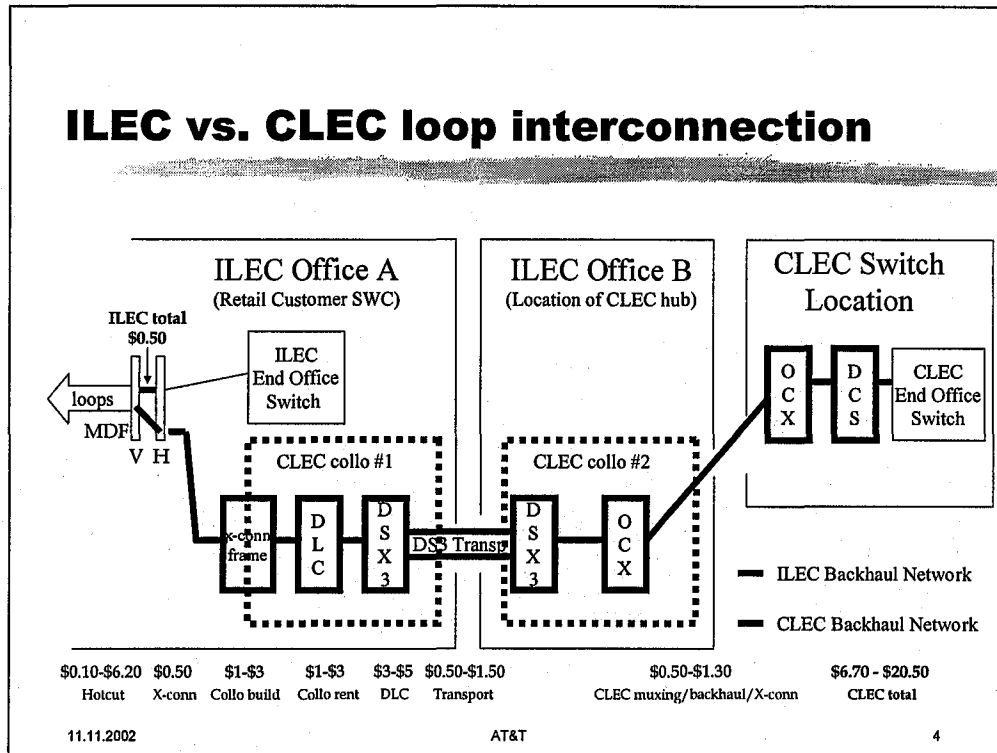


In order to backhaul the loop from the customer's wire center to the CLEC switch location, a facility will typically connect the customer's wire center to an aggregation hub where the CLEC likely has a facility-based collocation. Based upon prevailing RBOC special access term plans, and assuming no channel terminations are required, the cost of backhaul for 1,000 to 3,000 lines under a 5-year term plan in the least costly RBOC territory will be in the range of \$0.19 (\$510/2,688) to \$0.51 (\$510/1,000) per line per month (while a 3-year plan in a costly RBOC yields a range of \$0.74 (\$1,990/2,688) to \$1.99 (\$1,990/1,000). [The range is $(\$0.19 + \$0.74)/2$ to $(\$0.51 + \$1.99)/2$, which was generalized to a range of \$0.50 to \$1.50. At maximum cage utilization, this cost will be in the range of \$0.19 to \$0.26 per line if a 5-year contract is employed in low-cost RBOC territory (\$0.22 for 7,000 lines). (In the range of 6,000-8,000 lines, 3 DS3s are always required)

Transport costs from the node are a function of the level of utilization of the node facility and the efficiency with which the required DS3s are filled. If the node transport is filled to 80% of capacity, the cost per DS3 is \$841/month and the unit cost for 3,000 lines is about \$0.50 per line. ($\841×2 DS3s for 3,000 lines at 4:1 concentration) / 3,000 lines. If the transport facility is only half full, the DS3 average cost is \$1,357 and for 1,000 lines one DS3 is required for an average cost of \$1.36 per line. From a practical standpoint, the best that can be achieved is 6,000-8,000 lines requiring 3 DS3s. Assuming that a CLEC can build a facility that it just manages to justify (supporting 18 DS3s of traffic), the cost per DS3 is \$1,809 and the average cost per line is \$0.68 to \$0.90 per line ($(\$1,809 \times 3)/8,000$ to $(\$1,809 \times 3)/6,000$). At the mid-point, the cost is \$0.79, so the combined backhaul cost is somewhat over \$1.00 per line. Note that the low backhaul fill is not a result of poor facility management on the part of the CLEC but is instead due to the inability to aggregate sufficient demand at the ILEC LSOs where collocation is established.

At this point, the CLEC which can acquire huge 6,000 to 8,000 lines out of a single wire center has a tie pair in place that costs about \$4.96 (= \$1.40 collo + \$2.31 DLC infrastructure + \$1.01 backhaul + \$0.24 maintenance). But for more reasonably sized 1,000 to 3,000 line collocations, the cost is closer to \$8.91 (= \$2.80 collo + \$4.22 DLC infrastructure + \$1.65 backhaul + \$0.24 maintenance).

ILEC vs. CLEC loop interconnection



The CLEC can then initiate service via a hot cut. Assuming a median charge of \$35/loop and that equivalent costs are incurred by the CLEC to coordinate the work plus 10-20% rework, this adds a cost of about \$2.23/loop per month (assuming a 36-month recovery period).

The same tie-pair cost (as the ILEC) would also exist.

Detail:

Median Hot Cut charge = \$35.00

Internal Cost = \$35.00

15% rework (\$70*.15) = \$10.50

average transfer cost/successful transfer = \$80.5

average account life = 36 months

cost/month (without any financing cost) = \$2.23/month

Therefore, CLEC dial-tone is delivered at a minimum unit cost disadvantage of \$7.19/month (\$4.96+\$2.23), assuming both the ILEC and CLEC incur an equal charge for the cross-connection at the mainframe

Note that the state hot cut charges are highly variable, ranging from a low of \$2.38 in MN to a high of \$194.22 in AZ/ Amortized over a 36-month period and reflecting 15% rework (and not accounting for any), the costs associated with ILEC charges can range from a low of under 0.\$10 ($\$2.38 \times 1.15 / 36$) per line per month to a high of over \$6.00/line per month ($\$194.22 \times 1.15 / 36$).

See also November 24, 2002 AT&T *ex parte* containing detailed discussions of the cost of build CLEC back-haul infrastructure. In particular, this *ex parte* discussed the fact that SBC appears to have stipulated to roughly these extra cost impairments to a CLEC seeking to collect and backhaul unbundled voice-grade loops.